

## Manager insight – 31 May 2009

The Dividend Yield Portfolio returned 0.70%<sup>1</sup> for the month of May. This is slightly lower than the performance of the NZX50 Index which was up 0.86%<sup>2</sup>.

Several companies have recently reported their results for the year to the end of March. These included the market's strongest performer over the month, Fisher & Paykel Appliances, which bounced after it raised capital to resolve its debt issues, and Methven, which was the Dividend Yield Portfolio's best performer. Methven is headquartered in Avondale, Auckland and is a highly successful manufacturer, marketer and distributor of plumbing valves, tapware and showerware. In particular, it has developed a sophisticated range of shower heads under the brand name of 'Satinjet' that have proved very popular, not just in New Zealand but also overseas.

### Share insight: Methven

Methven's result was interesting because it was the first opportunity to see how well the company has dealt with the dramatic decline in residential housing construction and renovations over the past year. In total, over its 2009 financial year, Methven earned \$16m (pre interest and tax) on revenue of \$137m – an EBIT margin of nearly 12%. This strong performance sustained the very attractive cash yield which, even following a strong appreciation in its share price, is around 9%.

Of particular note was the performance of its business in the UK. In 2007, Methven acquired a tapware business called Deva. Subsequently, the UK housing market experienced a severe contraction. It is pleasing to note that Deva's performance has met and to some extent exceeded pre-acquisition expectations. Although it was faced with very challenging conditions in all of its markets, Methven's overall result was highly creditable and it provides a good example of the benefits of fundamental research. It was clear to all that the conditions Methven faced were deteriorating but the manager's research showed that even faced with these conditions, Methven's share price was significantly below its fundamental value.

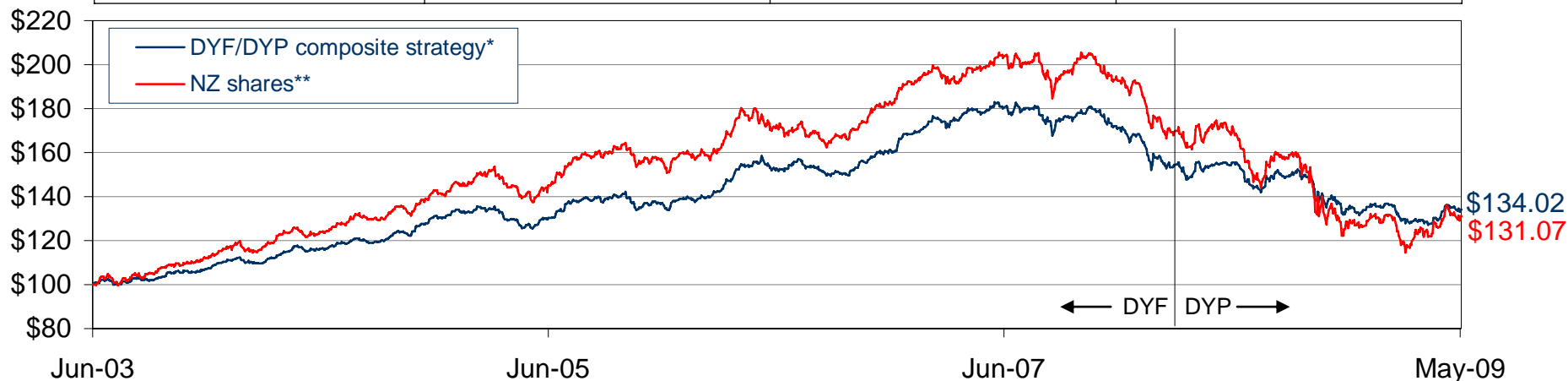
The valuation metrics for Methven are compelling. Aside from the high yield, over the 2010 financial year, even if pre-tax earnings decline by 15%, the company may still generate cashflow of nearly 20c per share. With its share price trading at around \$1.35 on 12 June, it is priced at 6.75x cash flow. This is despite the fact that it has rallied more than 40% since it touched its lows in mid March.

<sup>1</sup> Returns are stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

<sup>2</sup> Source: Bloomberg.

## Performance to 31 May 2009 for DYF/DYP composite strategy\*

Performance attribution	One month	Three month	Six month
Positive	Goodman Fielder; Methven	-	-
Neutral	n/a	-	-
Negative	Kiwi Income Property	-	-



DYP return One-month	DYP return Three-month	DYP return Six-month	DYP return One-year	Composite strategy return Since inception pa
0.70%	3.28%	-0.24%	-13.85%	5.01%

Returns are stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns. \*Dividend Yield Fund (DYF) data from 6 Jun 03 to 28 Feb 08. Dividend Yield Portfolio (DYP) data from 28 Feb 08 to 31 May 09. \*\*Source: Bloomberg. NZ shares represented by NZX50 Index. The asset class index in the chart (NZX50 Index) is not for benchmarking purposes but rather to demonstrate the performance of the largest asset class allocation in the Portfolio.

# Dividend Yield Portfolio

## Portfolio summary as at 31 May 2009

### Portfolio summary

Number of securities	24
Cash, capital notes & other	49%
Shares	51%
Weighted average yield	8.4%
Average market cap (share holdings)	\$1.960b

Sector / Security	Proportion of portfolio	Market cap (\$m)	Yield*	Payout ratio
<b>Cash</b>	<b>46%</b>			
Cash		-	2.8%	-
<b>Cyclicals</b>	<b>11%</b>			
Fletcher Building		\$3,820	8.6%	70%
Freightways		\$421	7.6%	67%
Methven		\$87	13.6%	80%
Restaurant Brands		\$90	10.9%	59%
<b>Non Cyclicals</b>	<b>40%</b>			
AMP NZ Office Trust		\$509	12.7%	98%
Contact Energy		\$3,348	7.0%	93%
Fisher & Paykel Healthcare		\$1,442	6.2%	102%
Goodman Fielder		\$2,169	7.5%	77%
Goodman Property Trust		\$702	1.6%	100%
Infratil		\$890	5.5%	160%
Kiwi Income Property		\$727	11.4%	100%
Lion Nathan		\$7,891	3.9%	79%
Port of Tauranga		\$814	6.0%	79%
Sky City		\$1,581	7.6%	71%
Telecom		\$4,733	9.3%	96%
Trustpower		\$2,464	6.6%	114%
Vector		\$2,011	8.6%	82%
<b>Capital Notes &amp; Other</b>	<b>4%</b>			
Kiwi Income Property MCN		-	8.6%	-
Fletcher Building 7.5% 15 Mar 2012		-	8.7%	-
GPG Finance 9% 15 Dec 2013		-	10.9%	-
Infratil 8.5% 15 Sep 2013		-	10.8%	-
Sky City 8% 15 May 2010		-	8.4%	-
TrustPower 8.5% 15 Mar 2014		-	8.3%	-
<b>Total</b>	<b>100%</b>		<b>8.4%</b>	

\*Yields forecast by NZ Funds for each company's current financial year. Where applicable, the security's yield reflects the benefit derived from imputation credits received.  
Note: Rounding may affect the subtotals and totals.

For further information or to request a copy of the relevant Investment Statement, please contact New Zealand Funds Management Limited.

Past performance is not necessarily an indication of future returns.

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